

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

December 20, 2007

Mr. Chris Stenger
Vice President of Planning and Reimbursement
Sava Senior Care Administrative Services, LLC
5300 West Sam Houston Parkway North, Suite 200
Houston, Texas 77041

Re: AC# 3-MAS-J3 – GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca

Dear Mr. Stenger:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written over a horizontal line.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.
D/B/A MARINER HEALTH CARE OF SENECA
SENECA, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-MAS-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2004	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2005	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2003	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 25, 2007

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

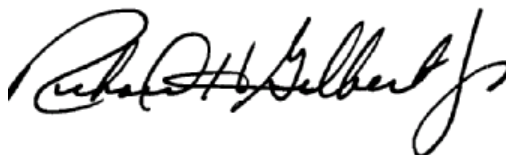
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 25, 2007

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

MARINER HEALTH CARE OF SENECA

Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-MAS-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$116.48
Adjusted Reimbursement Rate	<u>113.51</u>
Decrease in Reimbursement Rate	\$ <u>2.97</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 24, 2007

MARINER HEALTH CARE OF SENECA
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-MAS-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$55.47	\$ 70.99	
Dietary		10.85	12.15	
Laundry/Housekeeping/Maintenance		<u>9.79</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	76.11	93.56	\$ 76.11
Administration & Medical Records	<u>\$.12</u>	<u>14.94</u>	<u>15.06</u>	<u>14.94</u>
Subtotal		91.05	<u>\$108.62</u>	91.05
<u>Costs Not Subject to Standards:</u>				
Utilities		3.61		3.61
Special Services		.01		.01
Medical Supplies & Oxygen		2.81		2.81
Taxes and Insurance		2.32		2.32
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$99.80</u>		99.80
Inflation Factor (4.70%)				4.69
Cost of Capital				7.27
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				.12
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.92)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$113.51</u>

MARINER HEALTH CARE OF SENECA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,706,788	\$ -	\$48,611 (3) 2,748 (3) 873 (4) 12,857 (7)	\$2,641,699
Dietary	522,101	-	5,304 (3)	516,797
Laundry	87,750	-	1,427 (3)	86,323
Housekeeping	219,681	932 (5)	3,887 (3) 917 (6)	215,809
Maintenance	163,248	2,139 (4) 681 (5)	1,085 (3) 684 (6)	164,299
Administration & Medical Records	799,474	1,722 (5)	6,983 (3) 1,147 (3) 79,915 (4) 1,422 (6) 410 (7)	711,319
Utilities	171,695	716 (5)	5 (4) 716 (6)	171,690
Special Services	322	5,460 (4)	5,119 (3) 341 (7)	322
Medical Supplies & Oxygen	167,798	-	441 (3) 33,696 (7)	133,661

MARINER HEALTH CARE OF SENECA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	120,955	144 (4) 497 (5)	10,761 (2) 452 (6)	110,383
Legal Fees	-	-	-	-
Cost of Capital	357,360	557 (1) 579 (5)	9,113 (4) 444 (6) <u>2,476 (8)</u>	346,463
Subtotal	5,317,172	13,427	231,834	5,098,765
Ancillary	235,252	-	-	235,252
Nonallowable	1,979,081	10,761 (2) 76,752 (3) 82,163 (4) 4,635 (6) 47,304 (7) 2,476 (8)	557 (1) 5,127 (5)	2,197,488
CNA Training and Testing	<u>3,339</u>	<u>-</u>	<u>-</u>	<u>3,339</u>
Total Operating Expenses	<u>\$7,534,844</u>	<u>\$237,518</u>	<u>\$237,518</u>	<u>\$7,534,844</u>
Total Patient Days	<u>47,624</u>	<u>-</u>	<u>-</u>	<u>47,624</u>
Total Beds	<u>132</u>			

MARINER HEALTH CARE OF SENECA
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$42,624	
	Cost of Capital	557	
	Fixed Assets		\$ 9,072
	Accumulated Depreciation		33,552
	Nonallowable		557
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	10,761	
	Taxes and Insurance		10,761
	To adjust liability insurance expense HIM-15-1, Section 2304		
3	Nonallowable	76,752	
	Nursing		48,611
	Restorative		2,748
	Dietary		5,304
	Laundry		1,427
	Housekeeping		3,887
	Maintenance		1,085
	Administration		6,983
	Medical Records		1,147
	Medical Supplies		441
	Special Services		5,119
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Maintenance	2,139	
	Taxes and Insurance	144	
	Special Services	5,460	
	Nonallowable	82,163	
	Nursing		873
	Administration		79,915
	Utilities		5
	Cost of Capital		9,113
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SENECA
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Housekeeping	932	
	Maintenance	681	
	Administration	1,722	
	Utilities	716	
	Taxes and Insurance	497	
	Cost of Capital	579	
	Nonallowable		5,127
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	4,635	
	Housekeeping		917
	Maintenance		684
	Administration		1,422
	Utilities		716
	Taxes and Insurance		452
	Cost of Capital		444
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	47,304	
	Nursing		12,857
	Administration		410
	Medical Supplies		33,696
	Special Supplies		341
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SENECA
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Cost of Capital	2,476	2,476
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$280,142</u>	<u>\$280,142</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MARINER HEALTH CARE OF SENECA
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>132</u>
Deemed Asset Value	5,438,136
Improvements Since 1981	1,328,630
Accumulated Depreciation at 9/30/03	(<u>2,263,303</u>)
Deemed Depreciated Value	4,503,463
Market Rate of Return	<u>.0531</u>
Total Annual Return	239,134
Return Applicable to Non-Reimbursable Cost Centers	(976)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	238,158
Depreciation Expense	112,792
Amortization Expense	278
Capital Related Income Offsets	(4,321)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(444)</u>
Allowable Cost of Capital Expense	346,463
Total Patient Days (Actual)	<u>47,624</u>
Cost of Capital Per Diem	\$ <u><u>7.27</u></u>

MARINER HEALTH CARE OF SENECA
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MAS-J3

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.04
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u><u>\$11.03</u></u>
Reimbursable Cost of Capital Per Diem	\$ 7.27
Cost of Capital Per Diem	<u>7.27</u>
Cost of Capital Per Diem Limitation	<u><u>\$ -</u></u>

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.